

# **REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL ON MIDVAAL LOCAL MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the financial statements of the Midvaal Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets the cash flow statement and the statement of comparison of budget information for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act, 2013 (Act No. 2 of 2013) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-General's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Midvaal Local Municipality as at 30 June 2013, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA.

### **Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Significant uncertainties**

8. With reference to note 39 to the financial statements, the municipality is a defendant in a number of lawsuits. The ultimate outcome of these matters cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

### **Restatement of corresponding figures**

9. As disclosed in note 34 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of an errors discovered during 30 June 2013.

### **Material losses**

10. As disclosed in note 52 to the financial statements, material losses to the amount of R18 972 665 (12,43%) and (2012: R18 435 354) (14,23%), representing 29 520 250 kilowatts (2012: 33 826 337), were incurred as a result of the electricity losses. The technical loss amounted to R9 158 162 (6,0%) while the non-technical loss amounted to R9 814 503 (6,43%).
11. As disclosed in note 52 to the financial statements, material losses to the amount of R16 822 830 (24,33%) (2012: R14 932 311) (24,52%), representing 3 399 994 kilolitres (2012: 3 310 640), were incurred as a result of the water losses.

### **Additional matter**

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Unaudited supplementary schedules**

13. The supplementary information set out on pages xx to xx do not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **PUBLIC AUDIT ACT REQUIREMENTS**

14. In accordance with the PAA and the *General Notice 1111 of 2010* issued in terms *Government Gazette* 33872 of 15 December 2010, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

### **Predetermined objectives**

15. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
16. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury's *Framework for managing programme performance information* (FMPPI). The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
17. The material findings are as follows:

## **Usefulness of information**

### **Presentation**

#### **Measures taken to improve performance not disclosed**

18. Section 46 of the Municipal Systems Act requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for the planned targets not achieved were not reflected in the annual performance report.

#### **Reported objectives, indicators and targets not consistent**

19. The Municipal Systems Act, section 41(c) requires that the integrated development plan should form the basis for the annual performance report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 22% of the reported indicators are not consistent with the indicators as per the approved integrated development plan.

#### **Performance targets not specific**

20. The FMPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. In total of 38% of the targets were not specific in clearly identifying the nature and the required level of performance.

#### **Performance indicators not well defined**

21. The FMPPI requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. In total of 52% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently.

#### **Performance indicators not verifiable**

22. The FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. In total of 67% of the indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not exist.

#### **Performance indicators not relevant**

23. The FMPPI requires that the indicator should relate logically and directly to an aspect of the institution's mandate and the realisation of strategic goals and objectives. In total 52% of indicators did not relate logically and directly to an aspect of the institution's mandate and realisation of strategic goals and objectives as per the five-year integrated development plan.

#### **Performance targets are not measurable**

24. The FMPPI requires that performance targets be measurable. The required performance could not be measured for a total of 46% of the targets.

## **Reliability of information**

### **Reported performance not reliable**

25. The FMPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The information presented with respect to the provision of basic services was not reliable when compared to the source documentation and/or evidence provided.

**Compliance with laws and regulations**

26. I performed procedures to obtain evidence that the entity had complied with applicable laws and regulations regarding financial matters, financial management and other related matters.
27. I did not identify any instances of material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA.

**Leadership**

28. The accounting officer did not adequately exercise oversight of the usefulness and reliability of performance reporting.

**Financial and performance management**

29. Management was aware of the requirements of the FMPPI, but did not apply the principles appropriately, resulting in findings relevant to the usefulness of reported information.
30. The municipality did not have a proper system of record management that provides for the maintenance of information that supports the reported performance contained in the annual performance report. There was also a lack of standard operating procedures for the appropriate planning and accurate recording of actual achievements and a lack of monitoring and review of the validity, accurateness and completeness of reported information which resulted in findings on the reliability of reported information.

**Governance**

31. The internal audit unit did not identify internal control deficiencies in performance reporting and did not recommend corrective action effectively.
32. The audit committee did not provide oversight of the effectiveness of the internal control environment on performance reporting.

## **OTHER REPORTS**

### **Investigations**

33. An investigation is being conducted by the Special Investigating Unit into alleged maladministration within the municipality. The investigation was still ongoing at the reporting date.

Auditor - General

Johannesburg

30 November 2013



*Auditing to build public confidence*